REPORT OF THE
SECRETARY OF TRANSPORTATION

Report on the Progress in Meeting the Request of Senate Joint Resolution 297

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO.

COMMONWEALTH OF VIRGINIA
RICHMOND
2011

COMMONWEALTH of VIRGINIA

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December 30, 2011

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Honorable Yvonne B. Miller
Chairman, Senate Transportation Committee
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Richmond, Virginia 23219

Honorable Joe T. May
Chairman, House Transportation Committee
General Assembly Building
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Lady and Gentlemen:

Attached for your review is a report on progress to study the issues relating to transit in the Commonwealth, particularly the Commonwealth's funding processes. As directed in the 2011 Acts of Assembly [SJ 297], the Virginia Department of Rail and Public Transportation was instructed to address the issues of performance, prioritization, stability, and allocation. The Department has conducted this study in cooperation with transit stakeholders, transit systems, local governments, and metropolitan planning organizations, as well as other interested parties. The emphasis of the research was to bring an understanding of trends related to transit program design and formula distribution mechanisms in use by other states to the questions raised in Virginia and to test a variety of alternative formula mechanisms for the Virginia public transit program. As much progress has been made in this effort, this interim report is provided by the Virginia Department of Rail and Public Transportation to provide an overview of work conducted and to set forth next steps to complete this important study effort and report its findings to the General Assembly by September 2012.

Sincerely,

Thelma Drake

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Project Purpose

Senate Joint Resolution No. 297, passed during the 2011 General Assembly, directed the Virginia Department of Rail and Public Transportation (DRPT) to study issues relating to transit in the Commonwealth, particularly the Commonwealth's funding processes. The resolution instructs DRPT to address in its study the following issues: performance, prioritization, stability, and allocation. DRPT has conducted this study in cooperation with transit stakeholders, transit systems, local governments, and metropolitan planning organizations, as well as other interested parties. The emphasis of the research was to bring an understanding of trends related to transit program design and formula distribution mechanisms in use by other states to the questions raised in Virginia and to test a variety of alternative formula mechanisms for the Virginia public transit program. This interim report provides an overview of work conducted and results to date.

Project Approach and Stakeholder Outreach

To address the legislative mandate of the Senate Joint Resolution No. 297, DRPT adopted an approach based on activities discussed below.

DRPT convened a working group of transit professionals for the purpose of developing stakeholder interaction on possible performance measures. The group met three times for day-long meetings.[1] Stakeholder input was gathered on the advantages and disadvantages of: 1) the current system, 2) potential changes to the system, and 3) specific performance measures considered for distribution formulas.

As a first step, DRPT and its study team developed a technical memorandum[2] that documents and affirms a common understanding of the existing distribution process for public transit funds managed by DRPT. This description created a baseline with respect to the current flow of funding for transit at the state level. This flow is derived from a series of legal authorities that for the most part are embodied in codified Virginia law and supplemented by appropriations actions and policy direction from the Commonwealth Transportation Board (CTB). This aspect of the analysis also enables the study team to distinguish between which changes to the funding mechanisms would require changes in legislation as opposed to administrative changes.

DRPT and its study team reviewed and distilled, for purposes of discussion with the Stakeholder Advisory Committee, nationwide trends in funding distribution practices, and the resulting experiences of other transit providers. This research led to the identification of a wide range of

[1] Further information on the meetings, committee, and study can be found on the DRPT website at http://www.drpt.virginia.gov.

[2] This technical memorandum that provides details of the flow of funding documented for the study can be found on DRPT's website at: http://www.drpt.virginia.gov/activities/files/DRPT_Technical_Memo_final.pdf

possible distribution factors and program structures, including traditional and performance-based approaches. DRPT and the study team consulted with the Stakeholder Advisory Committee to develop options for the distribution of State operating assistance, and identified data needs for use in possible distribution formulas. Data collection for the initial testing of these concepts demonstrated that not all data considered for use in distribution formulas is currently uniformly available for all transit providers. The data led to the development of possible distribution formulas.

DRPT and the study team then tested the performance-based distribution formulas chosen by DRPT, analyzed results, and presented results to the stakeholder group. Several "rounds" of formulas were developed and tested. At the initial stage, specific projections of distributions using these formulas were illustrative, but these initial trials helped the study team and stakeholders understand the implications of various approaches to selecting factors. Since these results were strongly influenced by data availability issues, DRPT and the study team developed a second set of funding options, tested them, and analyzed results. Findings raised numerous questions, as well as alternatives that look promising for future investigation. Based on the outcomes of the scenario testing to date, DRPT has determined that additional research and testing would be necessary prior to developing a comprehensive set of recommendations for changes to current fund allocation methods.

Current Funding Allocation: Advantages and Disadvantages

To consider the appropriate criteria by which alternative options might be evaluated, an assessment of the current mechanisms, including the perceptions of stakeholders, was conducted. The Stakeholder Advisory Committee convened by DRPT provided valuable input to assessing the advantages and disadvantages of the current system.

Scenarios Selected for Initial Study

The scenarios were constructed in order to test funding options that addressed the policy issues raised in SJR 297. Research and input from the stakeholder group show that there are numerous metrics for consideration, each with their definitional and source issues, particularly among the different modes of transit. The purpose of testing at this stage was to identify the practical aspects of manipulating the factors and to isolate, if possible, the relationships among the factors and across the recipients. Bias of some degree is introduced with every variable, including the current process. However, it is noted that it is possible to design combinations of programs to compensate for the bias inherent in any one program formula.

As explained above, the analysis of formula options was conducted in two basic "rounds." The initial analysis of formula options was based on four scenarios and compared against a baseline of expected funding under the current structure and funding levels as well as an increase in funding of 25 percent. The scenarios included factors such as service area population,

population density, fiscal stress index, passenger miles, and cost per passenger mile. The progression from the first through fourth scenario was cumulative and meant to test these structures for feasibility and to provide some insight into the impacts of additional and more sophisticated factors.

Scenarios Selected for Further Study

Based on the lessons learned from the first round's illustrative findings about factors and data availability, DRPT and the study team investigated another series of formula allocation options for operating assistance grants which built on the concepts tested in the first analysis. This effort led to the exploration of a tier structure whereby transit agencies were classified by area type consistent with the definitions used by the Federal Transit Administration (rural, small urban and large urban) and performance oriented factors.

Five scenarios were tested based on combinations of the performance measures listed below. The data sources were consistent with the selection rules used during the first round of analysis. Since the performance attributes adopted as factors related to transit providers rather than service areas, the National Transit Database information was most suited to satisfying data requirements.

- Ridership per revenue hour (in terms of passenger trips);
- Ridership per revenue mile (in terms of passenger trips);
- Operating cost per revenue hour (using the inverse in order to reward lower costs);
- Operating cost per revenue mile (using the inverse in order to reward lower costs); and
- Assumed Amount of Locally Derived Revenue.

Next Steps

DRPT has determined that additional research should be conducted to address SJR 297 prior to making recommendations on changes to the current allocation system. This interim report provides an overview of work conducted and results to date. DRPT will continue to work with stakeholders to explore improvements to the current allocation system.

Further research will consider:

- Possible alternative factors, formula structures and formula combinations;
- Implications of possible formulas;
- Additional potential data sources; and

- Possible transition strategies from the current system to a revised system.
  DRPT anticipates that this supplementary research will be completed by August of 2012, with recommendations for changes to the General Assembly to be provided by September of 2012.